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Operational Review

Saratoga County Water Authorities

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Executive Summary

Purpose and Authority:

The Authorities Budget Office (ABO) is authorized by Title 2 of the Public Authorities Law to review and analyze the operations, practices and reports of public authorities, to assess compliance with various provisions of Public Authorities Law and other relevant State statutes, and to make recommendations concerning the reformation and structure of public authorities. This includes rendering conclusions and opinions regarding the performance of public authorities and assisting these authorities improve management practices and the procedures by which their activities and financial practices are disclosed to the public. Our operational review of the three public water authorities in Saratoga County was performed between November of 2011 and June 2012 and was conducted in accordance with our statutory authority and compliance review protocols which are based on generally accepted professional standards. The purpose of our review was to determine if the three authorities could be consolidated and to evaluate the management and operating practices of the authorities.

Background Information:

There are three separate public authorities that operate water systems in Saratoga County: Saratoga County Water Authority (SCWA), Clifton Park Water Authority (CPWA) and the Wilton Water and Sewer Authority (WWSA). All three were established in the early 1990s, although SCWA was essentially dormant until 2007, when it took over responsibility for the water system initiated by the County in order primarily to meet the needs of GlobalFoundries, a computer chip manufacturing company. CPWA and WWSA obtain most of their water from wells, but have been connected to and have received some of their water from SCWA since 2010.

SCWA began providing water in February 2010, and provided just over one billion gallons of water to its customers in 2011. For 2011, SCWA had \$2.8 million in water revenues and operating costs of \$4.8 million, with 9 full-time staff. Currently, no SCWA employees are primarily responsible for financial management. SCWA contracts with an accounting firm to assist its confidential secretary with bookkeeping on an as-needed basis. SCWA's costs of operations per thousand gallons of water produced were \$4.58.

For 2011, CPWA provided over 1.1 billion gallons of water to its customers. CPWA had \$3.8 million in water revenues and operating costs of \$2.8 million, with 19 full-time staff. CPWA's costs of operations per thousand gallons of water produced were \$3.88.

For 2011, WWSA provided over 285 million gallons of water to its customers. WWSA had \$1.1 million in water revenues and operating costs of \$1 million, with 3 full-time and 2 part-time staff. WWSA's costs of operations per thousand gallons of water produced were \$2.91.

Results:

Our review found that the three existing authorities could be dissolved and the operations combined and consolidated in a single public authority that provides water to the same population that is currently served. The result would be a single authority with qualified management and operations staff that should reduce overall costs through improved efficiencies and economies. For example, we determined that up to \$60,000 could be saved annually by sharing staff to provide excavation services, and a potential \$10,000 could be saved annually by consolidating purchases of water treatment chemicals. We also found that over \$300,000 is spent annually on common administrative costs such as independent audits, maintaining web sites, telephones and general counsel services. These costs could be reduced by having a single authority.

We also evaluated the management practices at each of the three authorities. While we did not find any significant issues at WWSA, we identified several areas for improvement at SCWA and CPWA. Based on our review, we believe that the SCWA board has not exercised sufficient oversight of financial and management operations. We identified numerous instances of insufficient fiscal and operational controls. We believe that this is due in large part to the board's reliance on part-time consultants and contractors to oversee employees and the operations of the Authority. We found that SCWA pays over \$100,000 annually for consultants to provide services that are provided by employees at the other authorities, and believe that consolidating the three authorities into a single entity would reduce these costs as well as provide improved financial and managerial oversight.

Our review determined that CPWA did not have any serious internal control deficiencies, but could take steps to reduce its operating costs. For example, we determined that CPWA spent

over \$9,500 in a three year period for items that are unnecessary for operations, such as coffee for employees. We also found that the board chairman receives a \$3,000 annual stipend although such compensation is not authorized by the Authority's enabling legislation. We also found that CPWA treats its general counsel as a part-time employee, entitled to state retirement credits, although the relationship between the Authority and the counsel is more typical of that of a consultant. Lastly, we found that CPWA needs to improve its policies addressing the use of vehicles, cell phones and pagers, and could save money by selling its underutilized vehicles.

Introduction and Background

In Saratoga County, three public authorities own and operate public water systems: the Saratoga County Water Authority, the Clifton Park Water Authority, and the Wilton Water and Sewer Authority. Public water is also available through water districts and other sources, but the focus of our review is limited to these three public authorities.

Saratoga County Water Authority

The Saratoga County Water Authority (SCWA) was authorized in statute in 1990 to construct, improve, maintain, develop, expand and rehabilitate water facilities in Saratoga County, but was relatively inactive until 2007. During 2006, it became apparent that the County would need to provide a dependable water supply to support the operations of the GlobalFoundries microchip fabrication plant, which was planned for the Luther Forest Technology Park. This led the County to revive the SCWA and appoint a new seven member board. Board members must be residents of the County and at least four are required to be elected officials. Much of the system's initial planning and construction costs were incurred by the County prior to the reformation of SCWA. Responsibility and ownership of the system was transferred to SCWA, and the costs incurred by the County are to be reimbursed by SCWA either through the issuance of bonds or through revenues once the system is fully operational. In addition, SCWA has a service agreement with the County whereby the County will advance funds on a quarterly basis if needed to ensure that SCWA has sufficient funds to meet its operating and debt service costs. As of December 31, 2011, SCWA owes the County about \$4 million for the initial costs incurred and advances. The Authority also requested an additional \$1.4 million from the County in February 2012.

SCWA began supplying water in February 2010. The water system consists of a water treatment plant that draws water from the Hudson River. Water is treated at the plant and then distributed to municipal and private customers. In 2011, SCWA produced 1.04 billion gallons of water (2.86 million gallons per day). SCWA's municipal customers consist of the Wilton Water and Sewer Authority, Clifton Park Water Authority, the Town of Ballston and the Village of Stillwater. These customers have agreed to purchase a combined minimum of 1.15 million gallons of water per day for ten years. During 2011 these customers were charged a rate of \$2.05 per thousand gallons of water. SCWA also had monthly agreements with GlobalFoundries to supply water for between \$2.05 and \$2.75 per thousand gallons. Two other private customers also purchased water from SCWA in 2011.

SCWA employs 9 full-time staff and paid \$777,028 in salaries and benefits in 2011. SCWA employed an Executive Director through September 2011, but the

individual retired and was replaced with a part time consultant. There is currently no employee responsible for the financial management of the Authority. SCWA contracts with an accounting firm to assist the confidential secretary with bookkeeping on an as-needed basis, and contracts with another individual to fill the Chief Water Plant Operator position. In 2011, SCWA spent over \$509,000 in total on professional services contracts.

In 2011 SCWA earned \$2.8 million in revenue from water sales while operating expenses amounted to over \$4.7 million. SCWA has issued \$45 million in bonds and had \$44.1 million outstanding as of December 31, 2011. For 2011, SCWA's costs of operations per thousand gallons of water produced were \$4.58; consisting of \$2.10 in operating costs and \$2.48 in debt service costs.

Clifton Park Water Authority

The Clifton Park Water Authority (CPWA) was established in 1990 to acquire, construct, operate and maintain public water supply and distribution facilities for residents of the Town of Clifton Park (Clifton Park). CPWA has a five member board, each of whom must be a resident of the Town of Clifton Park. No elected officials can serve on the Board. CPWA began operations in 1992 by acquiring and rehabilitating various public and private water systems in Clifton Park and undertaking necessary system upgrades.

CPWA operates water treatment facilities that supply well water to residential and commercial customers. In 2011 CPWA produced 1.16 billion gallons of water (3.2 million gallons per day). In addition to its own sources, CPWA entered into an agreement to purchase a minimum of 500,000 gallons per day from SCWA. During 2011, CPWA purchased 229.8 million gallons (over 600,000 gallons per day) of water from SCWA at a cost of \$463,991. CPWA's customers include residents and businesses throughout Clifton Park, as well as a portion of the Town of Malta, the Village of Round Lake, and the Shenendehowa School District. For its residential customers, on a quarterly basis CPWA charges a basic service charge and a water usage rate on a sliding scale. Currently, the basic service charge is \$15.40, and the water rate starts at \$3.53 per thousand gallons for up to 40,000 gallons to a maximum of \$14.12 per thousand gallons for usage that exceeds 80,000 gallons. CPWA last increased its water rates in 2003. CPWA also sells water at a wholesale rate to the Village of Round Lake and the school district.

CPWA employs 19 full-time staff and paid \$1.3 million in salaries and benefits in 2011. In 2011 CPWA earned \$3.8 million in revenue from water sales while operating expenses amounted to over \$2.8 million. CPWA has issued \$34.5 million in bonds to acquire and rehabilitate its water systems and had \$24.7 million outstanding as of December 31, 2011. For 2011, CPWA's costs of operations per thousand gallons of water produced were \$3.88; consisting of \$2.02 in operating costs and \$1.86 in debt service costs.

Wilton Water and Sewer Authority

The Wilton Water and Sewer Authority (WWSA) was established in 1991 to produce, distribute and sell water and provide sanitary sewer services within the Town of Wilton. WWSA has a five member board, each of whom must be a resident of the Town of Wilton. No elected officials can serve on the Board. WWSA began operations in 1992 by acquiring a private water company. WWSA assumed the operation and maintenance of a sanitary sewer collection system in 1995. However, our operational review is limited to WWSA's water operations.

WWSA operates water treatment facilities that supply well water to its customers. In 2011 WWSA produced 285.9 million gallons of water (over 780,000 gallons per day). In addition to its own sources, WWSA has a contract with the City of Saratoga Springs to purchase up to 250,000 gallons of water per day (over 91 million gallons per year) at \$3.00 per thousand gallons. WWSA also entered into an agreement with SCWA in 2007 to purchase a minimum of 300,000 gallons per day at a rate of \$2.05 per thousand gallons. In 2011 WWSA purchased 397,000 gallons of water from the City at a cost of approximately \$1,000 and 79.4 million gallons from SCWA at a cost of \$162,827. WWSA's customers include residents and commercial users in the Town of Wilton. WWSA charges a base fee for water usage of either \$4.16 or \$4.85 per thousand gallons, with a minimum payment of \$37.44 or \$43.65. WWSA has reduced its rates eight times since 1992, with the most recent reduction to \$3.95 occurring for 2012.

WWSA employs 3 full-time staff and 2 part-time employees, and paid \$206,443 in salaries and benefits in 2011. In 2011 WWSA earned \$1.16 million in revenue from water sales while operating expenses amounted to over \$1 million. WWSA has issued \$2.5 million in bonds to finance the construction of a water treatment facility and had \$1.36 million outstanding as of December 31, 2011. For 2011, WWSA's costs of operations per thousand gallons of water produced were \$2.91; consisting of \$1.48 in operating costs and \$1.43 in debt service costs.

Compliance Review Objectives

The Authorities Budget Office (ABO) is authorized by Title 2 of the Public Authorities Law to review and analyze the operations, practices and reports of public authorities, to assess compliance with various provisions of Public Authorities Law and other relevant State statutes, and to make recommendations concerning the reformation and structure of public authorities. Our operational review was conducted to evaluate the potential for consolidating the three water authorities in the County, as well as make recommendations to improve each authority's business practices.

Compliance Review Scope and Methodology

Our compliance review was conducted between November 2011 and June 2012, and covered select authority operations since 2009. To perform our review we relied on the following documentation and data sources:

- Contractual agreements between the various authorities and municipalities in the County
- Board meeting minutes
- Financial records of revenues, expenditures and bond obligations
- Independent financial audits and other reports
- Annual and Budget Reports required by the Act
- Policies and procedures required under the Act, Public Authorities Law, and Public Officers Law
- Policies and procedures indicative of good governance practices

In addition to reviewing documents and records, we interviewed various staff, management and board members from each of the authorities; attended authority board meetings; toured authority facilities; and performed other testing we considered necessary to achieve our objectives. Our report contains recommendations to improve the effectiveness of the operations of the authorities. The results and recommendations of our review were discussed with appropriate officials, and these responses are reflected in this report where appropriate.

Review Results

Consolidating Authorities

The three water authorities perform the same basic function: all provide potable water to residential and commercial customers in Saratoga County. CPWA provides water to customers in the Town of Clifton Park and other neighboring towns; WWSA provides water to customers in the Town of Wilton, and SCWA provides water to both CPWA and WWSA, other towns within the County, and the GlobalFoundries plant in the Luther Forest Technology Park. For these reasons, our review examined whether it is necessary and advantageous to operate multiple water authorities within Saratoga County or whether it is potentially more cost-effective to consolidate the authorities into a single countywide water authority.

We found it is not only possible, but practical to combine and consolidate the operations of the three authorities.

- One of the potential impediments to consolidation has already been addressed. When SCWA began providing water in 2010 it was physically connected to both CPWA and WWSA. As a result, the infrastructure necessary for a consolidated and interconnected water system is in place. No additional significant capital investment would be required.
- Combining and consolidating the operations of the three authorities provides opportunities for improving the overall management, financial controls and operations of the authorities, while maintaining appropriate levels of service for the customers served by the existing authorities. Consolidation and improved management would address the poor financial practices and oversight that we discuss later in this report, primarily at the SCWA, as would adopting some of the best practices already implemented by staff at the CPWA and WWSA.
- Consolidation would also likely result in long term savings achieved through the ability to bulk purchase, the use of shared equipment, and the elimination of consultants now engaged to operate facilities.

Benefits to Consolidation

The following table identifies the current staff of the three authorities by function. There appears to be sufficient staff available among the existing authorities to provide adequate and appropriate management and oversight of operations. Minimal, if any, adjustments to permanent staffing levels would be required to achieve the consolidation and assure the effective operations of an integrated system.

Function	Position	CPWA	WWSA	SCWA
Administrative				
Overall responsibility for authority operations	Executive Director Administrator Director	1	.5^	.25*
Financial management	Comptroller Business Manager	1	.5	
Accounting and clerical functions	various	3	1.5	1
Operational				
Oversight of water treatment plant operations	Water System Superintendent Chief Water Treatment Plant Operator	1		1*
Operation and maintenance of water treatment plant	Water Treatment Plant Operator	1	.5^	3
	Assistant Water Treatment Plant Operator	1		
Oversight of distribution system	Distribution Supervisor Distribution System Foreman	1		1
Maintenance and repairs of production and distribution lines	Water Service Technician Maintenance Technician Water Distribution Equipment Operator Maintenance Mechanic Field Technician	5	1	2
Maintain and repair water plant instruments and computer components	Instrumentation Technician			1
Operate excavator, backhoe, dump truck and other heavy equipment	Heavy Equipment Operator	1		
Routine manual work	Laborer	1		1
Record water meter readings	Meter Reader	1		
Notes: * These positions at SCWA are held by consultants. ^ The Director at WWSA also serves as the Water Treatment Plant Operator				

At the same time, we believe that potential cost savings can be achieved through combining operations. These cost savings could be passed on to the public in the form of lower water bills, deposited in a reserve fund, or used to retire existing debts and obligations. For example, from 2009 through 2011 SCWA paid over \$192,000 to construction companies for excavation and related services for maintenance on its underground water pipeline. SCWA officials explained that these contracts were necessary, since SCWA does not have the proper equipment, such as backhoes and excavators, and none of the staff were qualified to operate heavy equipment. SCWA and CPWA officials indicated that the CPWA equipment was not capable of handling the size of the SCWA waterline. However, while CPWA staff and equipment may not be able to complete all of the work performed by contractors, by combining the operations of the authorities, some of these costs could be avoided, since CPWA already

employs a qualified heavy equipment operator and owns the necessary equipment for excavation.

We also identified certain administrative costs that could be significantly reduced. For example, each of the three authorities has an annual independent audit. The total cost for these audits exceeds \$36,000 a year. Each authority also maintains web sites, has telephones and answering services, pays for memberships in professional organizations, and has a general counsel. We determined that the total cost incurred for these common services exceeds \$300,000 annually. While some of these costs would still be incurred by a single entity, the total amount incurred could be significantly less than the total currently being spent by the three authorities.

Other savings could be realized by coordinating procurements of common items. For example, all three authorities routinely treat water with sodium hypochlorite. However, each of the authorities entered separate contracts for the purchase of this chemical, with different purchase prices for each contract. We determined that for 2011, the three authorities combined spent over \$42,700 for sodium hypochlorite. However, if all of the purchases were made under the lowest contracted price, the total amount would have been \$31,900, a savings of over \$10,000 for the year. SCWA and CPWA officials indicated that all purchases could not be made at the lowest contracted rate, since different rates are generated by delivery size and location. We acknowledge that different rates may apply, but also believe that coordinating procurements of common items has significant potential for obtaining cost savings.

Factors to be Considered

Each of the three authorities has debt remaining. Each authority's enabling statute provides that each authority shall continue until terminated by law, provided, however, that no such law shall take effect so long as the authority shall have bonds or other obligations outstanding unless adequate provision has been made for the payment of the bonds. WWSA has \$1.2 million of debt outstanding after principal payments in January 2012, but also has sufficient funds on hand that could be restricted for retiring the debt as it becomes due. CPWA has \$24.7 million of bonds outstanding and SCWA has \$44.1 million of bonds outstanding. Since each authority was authorized by a special act of the Legislature, any action to consolidate these authorities would also require state legislation. This special act would address how outstanding debt would be retired or refinanced.

Similarly, SCWA has agreed to reimburse Saratoga County for the costs incurred by the County in the initial planning, designing and construction of the water system, and also has an agreement with the County to provide SCWA with operating funds in excess of planned revenues, known as a service fee. Service fee payments received from the County are subject to interest rates of 4 percent

per year. Through the end of February 2012, the total amount owed by SCWA to the County was approximately \$5.4 million. This debt would need to be addressed in a new enabling statute.

This statute would also need to address the continued operations of the WWSA sewer system, and the fact that CPWA has established the Country Knolls Water Works as a not-for-profit subsidiary. The CPWA leases the water system that is owned by this subsidiary.

WWSA board members stated that they vehemently disagree with the recommendation to consolidate the three water authorities into a single water authority. They feel that it is not in the best interest of the Town of Wilton ratepayers to eliminate the WWSA. They argue that the cost of WWSA sewer operations would increase dramatically, and that any savings realized by WWSA customers for water service would be more than offset by the increase in sewer rates. They used 2012 budgeted figures and made adjustments to decrease or increase costs based on providing sewer services only. This analysis determined that current revenues would be insufficient to meet operating costs, and rate increases would be needed if a standalone authority responsible only for providing sewer services is left. The ABO understands that it may not be feasible to have a standalone authority only for sewer services within the Town, but does not believe that is the sole option available. As indicated, this is an issue that would need to be considered and appropriately addressed within a new statute.

CPWA officials indicate that consolidation of the three authorities would be totally undesirable and impractical. They indicated that there are significant logistic and management issues that would need to be addressed, such as increased costs for travel and maintenance due to an expanded system. CPWA officials indicated that they are concerned that a proposed consolidation of the three authorities would result in a reduction in the level of customer service that has been historically provided to Clifton Park residents. We understand that logistic and management issues would need to be addressed in any special act passed by the Legislature, but these should not be insurmountable problems. Further, we see no reason why the same level of services provided to ratepayers would be reduced simply because a new entity was created to replace the existing authorities.

SCWA officials indicate that the potential savings from consolidating the three water authorities are likely less than those identified in our report, but they would be willing to participate in further discussion regarding efforts to reduce costs via shared services and purchasing.

Neither WWSA nor CPWA officials believe that consolidating the three authorities would benefit the specific populations served by the current individual authorities. However, it is our belief that consolidating the authorities would result in an

overall more effective and efficient structure and benefit the overall customers being served.

Review of Management Practices

As part of our review, we examined the management practices and procedures and select expenditures of the three authorities to identify areas for improved business practices. While we did not find any significant issues at WWSA, we did identify several areas for improvement at SCWA and CPWA.

Wilton Water and Sewer Authority

We found that the WWSA board has adopted and follows very detailed procedures for the oversight and approval of financial transactions. As a result, we found only a single questionable purchase of \$50 made by the Authority, and WWSA is able to consistently meet its operating costs while also establishing reserves to meet future capital costs. We also found that WWSA has established adequate policies over use of Authority vehicles to monitor usage and appropriately reports personal use of vehicles as taxable income.

Saratoga County Water Authority

Based on our review, we believe that the SCWA board has not properly ensured that an adequate control structure is in place over the financial and management operations of the Authority. We identified numerous instances of insufficient fiscal and operational controls, resulting in inaccurate invoices for services, incorrect payments for goods, and unnecessary and wasteful expenditures. Many of these problems are not new. We learned that the lack of institutional financial controls was reported by independent auditors in 2009, 2010 and again in 2011. We believe that the continuation of these problems is, in part, the result of the board's reluctance to hire employees to provide financial and managerial oversight, but instead to rely on part-time consultants and contractors to provide executive and financial management.

Fiscal Controls We reviewed the Authority's bills to customers for 2011. A lack of effective internal controls, such as a lack of written procedure regarding how water meter readings are to be taken and recorded, and how amounts due are to be calculated contributed to numerous inaccuracies and incorrect bills. The Authority had three municipal customers in 2011: the Town of Ballston, the Wilton Water and Sewer Authority, and the Clifton Park Water Authority. The contract with each of these customers establishes an annual minimum purchase requirement, and specifies that the first three quarterly bills will be based on actual use, with the fourth quarter bill being adjusted if necessary to reflect the minimum annual purchase requirement. The Authority also had three private customers in 2011, but two of these customers only purchased minimal quantities of water on a short-term basis, which did not require written contracts. During 2011 SCWA and its third private customer, GlobalFoundries, negotiated a series of monthly agreements for water. These agreements called for monthly bills based on the actual amount of water used. We reviewed all 26 bills issued

to customers in 2011 (12 quarterly bills to the 3 municipal customers, 12 bills to GlobalFoundries, and 4th quarter bills to the other two private customers) and found that many were inaccurate.

For example, the Town of Ballston's contract requires that a minimum of 54 million gallons be purchased annually. The Town used over 95 million gallons of water in 2011. Yet SCWA billed the Town of Ballston for over 100 million gallons, based on an incorrect calculation of the water meter reading. This resulted in the Town of Ballston being over billed by over \$10,000 for 2011. After this was discovered, a credit was provided to the Town of Ballston in May 2012.

We found that WWSA was under billed by \$500 for 2011. SCWA approved a credit for WWSA based on water paid for but not taken in 2010, SCWA did not apply the appropriate amount of the credit to the 2011 bills, and incorrectly calculated the minimum purchase requirement for WWSA.

SCWA did take steps to correct some of these errors, by issuing revised or amended bills to customers or providing credits for overbilling. However, many of the errors occurred because of poor internal controls such as apparent uncertainty by SCWA staff regarding whether minimum usage provisions are applied quarterly or determined only at year end, inconsistencies in recording and calculating water meter readings, and failure to adequately track and record approved credits. Further, although written agreements are in place for water purchases, provisions of the agreements are not always followed, or are waived by the Board. As a result, revised or amended bills would sometimes also be incorrect and require multiple revisions. We believe that these issues will continue, unless adequate procedures are established and an appropriate financial manager is hired and properly trained.

SCWA officials responded that, contrary to the written contract terms, minimum usage requirements are applied to the quarterly water bills rather than at year end, at the request of the municipalities. However, there was no evidence provided to support this request from the municipalities. SCWA officials also stated that the process for adjusting the bills at year end resulted in accurate invoicing for water purchases for all clients. However, this is simply not true. As indicated, the Town of Ballston was overbilled by \$10,000 for 2011. This was not corrected as part of the year end adjustment that was made in January 2012, nor was it corrected when a revised bill was issued subsequently. It was not SCWA's standard procedures that identified and corrected the overbilling, but instead it was discovered through other means in April 2012.

Procurement Practices We found poor fiscal controls over SCWA procurement practices. For example, Board members told us that the Treasurer approves all invoices to ensure that purchases are essential to Authority operations. However, we found that it was common for employees to purchase items directly, using their personal funds, and then be reimbursed by SCWA.

This process circumvents any review and approval process, since items are being obtained without any prior review. Further, as reported by the independent audit, the board was provided with inaccurate and incomplete financial information, which could lead to inappropriate or ineffective decisions. As a result of these inadequate controls, we identified payments for items that were not essential to the Authority's operations, such as a one-time purchase of lunch for SCWA employees. We also identified a duplicate payment made to a vendor for the same invoice; and payments made that were not properly recorded in the financial records.

SCWA officials responded that the purchase of lunch for employees was not inappropriate, was consistent with its rules, regulations and procurement practices, and that there is no statute or regulation that prohibits it. We disagree. The fiduciary duty of the board is to act in the best interest of the authority and its customers. We believe that applying any payments received from customers to provide a free lunch to employees is inappropriate. This charge cannot be considered a normal cost of doing business.

We also identified instances where consultants were paid or reimbursed for costs not covered by their contracts. For example, the Authority's general counsel was reimbursed \$155 for personal expenses related to the retirement party of the former Executive Director. SCWA officials indicated that the general counsel will reimburse the authority for this expense. We further found the consultant hired as the Chief Water Plant Operator, whose work station is the water plant facility, is provided with a cell phone. SCWA board members stated that this cell phone is needed, since the Chief Water Plant Operator needs to be in contact with SCWA field employees. However, there are no provisions in the consultant's contract for the authority to provide a cell phone, and a land line phone is provided in the office for this individual.

SCWA's Personnel Policy states it will provide non-clerical employees with uniforms consisting of ten sets of shirts and pants and any protective equipment required by the position. However, the Authority's policy does not provide a maximum purchase amount or restrict the frequency of these purchases. In addition, there is no policy guidance as to what is considered personal protective equipment. As a result, in 2010 and 2011 SCWA spent \$10,340 for uniforms, or an average of \$470 annually per employee. This is twice as high as the annual \$200 per employee per year maximum purchase allowed by CPWA. WWSA does not provide uniform allowances. SCWA officials responded that its water plant is more complex than CPWA's and results in uniforms needing to be replaced more frequently. However, they agree that a uniform allowance policy needs to be adopted.

Outside Consultants SCWA had a fulltime Executive Director from 2007 into 2011. This Executive Director was responsible for directing the day to day activities of the Authority and overseeing the construction and operations of the

water system. The Executive Director was responsible for overseeing financial areas such as operating budget administration, personnel administration, collection of water revenues, and grant administration, but the job description did not include responsibility for developing and overseeing an internal control system over financial operations nor development and presentation of financial records. However, when the Executive Director retired in 2011, the board decided to not hire a replacement. Instead, the board contracted with a professional engineering services firm to manage the Authority on a part-time basis.

Under the terms of this contract, the consultant works ten hours a week at SCWA. Contract terms do not require the consultant to be readily available for emergencies, and as a result the consultant may choose to make other clients and outside business interests a priority over SCWA business. The annual cost for SCWA to engage the professional engineering firm for 10 hours per week is \$75,600. Despite this expense, the Authority does not get a fulltime chief executive officer to manage its \$4.7 million enterprise, with more than \$84 million in assets.

This lack of full time executive oversight is compounded by the fact that SCWA has never employed a fulltime chief financial officer, or appropriate financial manager. Instead, the Authority has relied on temporary service agencies or a confidential secretary to perform limited bookkeeping functions. As a result, SCWA found it necessary to enter into a contract with an accounting firm to assist this secretary. As indicated, the persistent lack of in-house financial expertise was cited as an internal control weakness by independent auditors. Yet the SCWA board of directors has not taken appropriate measures to ensure that an adequate structure is in place to provide for necessary executive and financial oversight.

SCWA officials responded that the individual serving as executive director has adequate qualifications and experience to provide the necessary financial and managerial oversight. They stated that the consulting Executive Director possesses a Master's Degree in Business Administration and has over twenty years of executive experience in managing the budgeting, administrative and financial responsibilities of public utilities. However, the contract for executive management services is not with this individual, but is with a professional engineering services firm. Further, the contract requires the consultant to be available only 10 hours per week, which we believe is insufficient for effective oversight.

Utility companies with underground services are required to mark out the location of these services before any excavation occurs near the service. We found that SCWA pays a contractor over \$3,000 annually, on average, to mark out water line locations rather than use its own employees. Unlike SCWA, both CPWA and WWSA use their own employees to perform this task. SCWA officials responded

that the use of contractors for this service is common within the industry, and stated that it is more cost effective than using employees to mark water lines. They estimate that it would take employees a minimum of 2 hours to complete the activity for each event, in part due to the amount of time it would require to travel to the location. However, their response fails to recognize that SCWA employees are required to traverse the entire pipeline on a weekly basis to conduct water tests, and also maintain the area around the pipeline on a regular basis. As a result, we believe the marking of the water lines could be incorporated into the established schedules for these employees with minimal additional time.

Board members indicated that the use of consultants and outside contractors has led to significant cost savings. However, we believe that SCWA's reliance on part-time consultants has contributed to the financial weaknesses that exist at the Authority. In addition, the cost savings cited by the board are not always accurate. For example, the consultant contract for executive director services is significantly more costly than hiring an executive director. While the contract for these services results in annual costs of \$75,600, these services are limited to 10 hours per week, rather than full time. The annual salary and fringe benefits for the prior Executive Director was about \$130,000 in 2009 and 2010. The equivalent costs of the consultant, on a comparable full time basis, would exceed \$300,000 annually. We determined that SCWA contracts for more than \$100,000 annually for services that are provided by employees at the other authorities we reviewed.

Clifton Park Water Authority

Our review found no serious internal control deficiencies at the CPWA, but it did identify some practices that were inappropriate, or could be improved and should be addressed by the board.

Unnecessary Expenses We found that CPWA spent over \$9,500 from 2009 through 2011 for items that are unrelated to Authority operations, such as food and drink supplies, items for parties, and flowers and gifts for employees and board members. For example, over \$6,000 was spent by the Authority over the three years on coffee for employees. We believe these expenditures are inappropriate and this practice should be discontinued.

CPWA officials indicated that they are taking steps to reduce or eliminate the expenditures on coffee, but that the purchase of the items listed are intended to create a more employee-friendly and therefore more productive workplace. While we appreciate the desire to create a positive work environment for employees, customers of the CPWA should not be expected to underwrite this cost.

Compensation CPWA's enabling legislation does not stipulate that board members are to be compensated for their services. It even states that board members shall receive no reimbursement of their ordinary expenses of attending meetings. However, we found that the board Chairman is paid a \$3,000 annual stipend. This practice began in January 2000, and appears to have been adopted without any basis in law. CPWA officials indicated that stipends to board members will be suspended pending an amendment to the enabling legislation. However, they also indicate that the enabling legislation does not restrict the ability to compensate the Chairman, and that it is allowable since the Chairman is designated as an officer of the Authority, and the board has the power to appoint and determine the duties and compensation of certain officers. We believe this position is an incorrect and inappropriate interpretation of the enabling legislation. The statute identifies the Chairman, Vice-Chairman, and Treasurer as officers, and indicates that the board may appoint additional officers and fix the compensation of these appointees. The Chairman is appointed by the Town Supervisor, not by the board, and the board has no power to determine compensation paid to officers it has not appointed.

Legal Services Similar to the other water authorities, CPWA has a general counsel that advises the Authority on all legal matters. However, unlike the other two authorities, the counsel for CPWA is considered a part-time employee of the Authority. Yet CPWA does not hold the general counsel to the standards typically applied to other employees. For example, while the counsel is paid through the payroll system and has tax and employee benefit deductions withheld from paychecks, the counsel does not report to a designated supervisor or department head. The counsel does not have a set work schedule; submits records of hours worked on invoices, rather than CPWA time records; does not receive performance evaluations and does not have a permanent work station at the Authority. In addition the counsel is entitled to provide legal services to outside clients. At the same time, the counsel is accruing service credits in the New York State Retirement System for the time spent on CPWA business. Further, the counsel receives additional pay if involved in litigation that requires more than ten hours of work per month. And, although CPWA treats the counsel as a part-time employee, the board annually designates and appoints the individual to the counsel position, similar to the process followed for the consultant engineer and independent auditor. The board does not annually designate and appoint any other employee positions.

CPWA officials indicated that when the counsel was hired in 2008, they provided information to the Office of the State Comptroller which was used as a basis to determine that the counsel was an employee and entitled to become a member of the State Retirement System. We reviewed this information and determined that some of the practices the counsel was expected to adopt, and which were apparently relied upon by OSC in admitting the individual into the State retirement system, are not currently being followed. For example, in 2008 CPWA indicated that CPWA would maintain time records for the counsel, which would

support a designation of employee. However, we found that bi-weekly time records are not maintained for the counsel, as they are for all other CPWA employees. Instead, the counsel maintains his own time tracking system, and submits invoices to CPWA that indicate the hours worked on CPWA issues. In 2008, CPWA also indicated that the counsel could not hire employees to assist in performing work for the Authority. However, we found that the counsel maintains a full-time private law practice, and there is nothing to prevent the counsel from hiring paralegal or secretarial staff for this office, who could also assist in the work done for CPWA. We have referred this matter to the Office of the State Comptroller for a determination whether the original arrangement has evolved in such a way as to bring into question if the general counsel should receive retirement credits as an employee or whether the general counsel should be more properly treated as a contractor.

Vehicle Usage CPWA has 13 pickup trucks and other passenger vehicles for use by field employees and the Administrator. These vehicles are intended primarily for business use, but select employees are provided vehicles which can be taken home and used to respond to emergencies or when on call. However, CPWA has not established a vehicle use policy that restricts the use of vehicles to business purposes or requires that mileage logs are maintained. Accordingly, we were unable to determine whether employees used vehicles appropriately. CPWA purchased a Dodge Durango in 2008, but the vehicle has only been used an average of 4,000 miles a year (the other 12 vehicles are used between 10,000 and 30,000 miles per year.) As a result, we question whether this vehicle acquisition was necessary and a good use of Authority funds. CPWA officials indicated that they are currently reviewing the vehicle use practices.

Cell Phone Usage CPWA issues cell phones to 14 of its 19 employees at an annual cost of approximately \$5,600, however, it does not does not have a cell phone use policy. In addition, 7 of these employees are provided with pagers so that they can be reached when on-call or in case of an emergency. These pagers cost about \$840 a year, and appear to be a redundant expense. Even if pagers are determined to be needed, CPWA requires only one employee be on-call during a given week and a single pager would be sufficient. CPWA officials indicate that they are currently reviewing the cell phone use practices and have eliminated all but two of the pagers.

Recommendations

General Recommendation

Consistent with the state's goals to consolidate duplicative or overlapping government agencies, the ABO recommends that a special act of the Legislature be enacted to replace the three water authorities in Saratoga County with a single countywide water authority. This legislation should provide for a cohesive professional management structure, a common board of directors, a unified administrative and billing function, and address the retirement of outstanding debt held by the three existing authorities, the future of the Town of Wilton sewer system and the Country Knolls Water Works.

Saratoga County Water Authority

Pending the formation of a new water authority:

1. The Board should recruit and hire employees with the necessary expertise to provide the appropriate financial and managerial oversight of Authority operations.
2. The Board should develop and adopt policies and procedures to improve control and oversight of its financial and operating practices, such as customer billing, meter readings, and purchasing.
3. The Authority should bill its customers in accordance with the terms and conditions of its customer contracts.
4. The Authority should ensure that adjustments and credits for customer bills are properly calculated and processed appropriately.
5. The Authority should review and approve items prior to purchase, in accordance with documented purchasing policies.
6. The Authority should not provide payment or additional benefits to consultants beyond compensation stipulated in their contracts.
7. The Authority should adopt and adhere to policies that prevent the purchase of items not necessary for the operations of the Authority, including a clear policy on employee uniform allowances.

8. The Board should refrain from relying on consultants to perform functions that could be completed by employees.

Clifton Park Water Authority

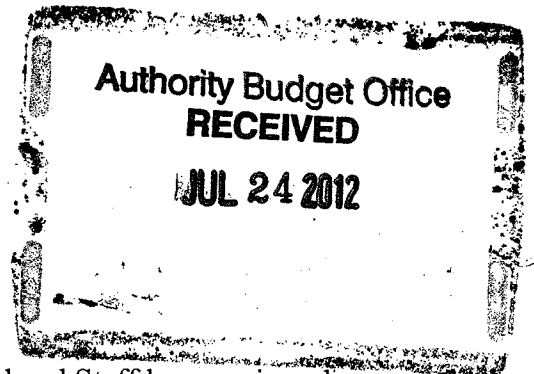
Pending formation of a new water authority:

1. The Authority should adopt and adhere to policies that prevent the approval of purchases not necessary for the operations of the Authority, specifically food and drink supplies, items for parties, and flowers and gifts.
2. The Board should not pay stipends to the Chair of the Board, since this form of compensation is not provided for in the Authority's enabling legislation.
3. The Authority should re-assess the employment status of its part-time general counsel, since the relationship between the counsel and the Authority is more that of a contractor than an employee.
4. The Authority should establish an appropriate vehicle use policy, monitor the utilization of Authority vehicles, and dispose of vehicles that are not justified as necessary.
5. The Authority should create a cell phone use policy to define acceptable use for Authority owned devices.
6. The Authority should eliminate the use of either cell phones or pagers, since the provision and utilization of both seems unnecessary and redundant.

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July 23, 2012

Michael Farrar
Director, Compliance Review
State of New York
Authorities Budget Office
P.O. Box 2076
Albany, NY 12020-0076



Re: Operational review of water authorities in Saratoga County

Dear Mr. Farrar,

The Town of Wilton Water and Sewer Authority (WWSA) Board and Staff have reviewed your Draft Report and offer the following comments for your consideration.

First I would like to point out two inconsistencies with our 2011 revenue and outstanding debt.

1. Page ES-2 and page 3 state that the 2011 water revenue is \$1.1 million. The actual revenue for the 2011 in the water fund was \$1,524,141. If this number is for water use or water rents only a comment should be added for clarification.
2. Outstanding debt is stated at \$1.2 million in the report on pages 3 and 7 and the actual outstanding debt is \$1,360,000. as of December 31, 2011.

We agree with the \$50.00 questionable purchase comment on page 8 and it will not happen again.

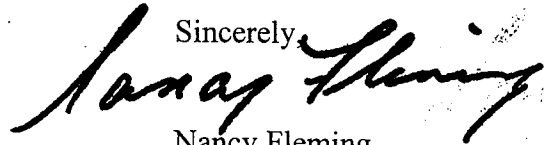
The WWSA Board vehemently disagrees with the conclusion to consolidate the three authorities. Your report appears to focus primarily on the positive impacts of consolidating but silent to any negative impacts that may result.

The WWSA runs both a water and sewer system. If the water portion of our operation were consolidated, the cost of sewer operations would increase dramatically. The minimal savings to the WWSA ratepayers for water service would be more than offset by the increase in sewer rates for sewer service. This would be contradictory to the goals set by the Governor's Task Force on the Implementation of the 2009 Public Authorities Reform Act.

This Board has always taken their fiduciary duty to provide water and sewer services to the residents of the Town of Wilton very seriously. Over the past 20 years every decision that was made by the WWSA was made for the sole benefit of the Ratepayers within the Town of Wilton as dictated in our enabling legislation. We have made many hard decisions to protect our Ratepayers and are very proud of the results. Water rates have been lowered 8 times since 1992, while still providing significant infrastructure replacement reserve funds.

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This proper stewardship of Ratepayers money will help the WWSA provide the necessary funds for the large infrastructure replacement costs that plague most utilities throughout New York State which result in increased debt and water rates. The WWSA Board simply does not believe it is legal or in the best interest of the ratepayers to consolidate.

Sincerely,

Nancy Fleming
WWSA Chair



August 16, 2012

Mr. Michael Farrar
NYS Authority Budget Office
PO Box 2076
Albany, NY 12220-0076

Re: Operational Review of Saratoga County Water Authorities

Sent via e-mail only

Dear Mr. Farrar:

While the CPWA does not discount the need for improved oversight of public authorities in New York State, it is this Board's belief that the Clifton Park Water Authority is a well-run operation, and that sufficient oversight of CPWA operations has always been provided by the current Board of Directors, and as far as can be seen, past Boards as well. It would appear by the minor comments and recommendations to the CPWA in the Operational Review of Saratoga County Water Authorities that the ABO would be in agreement with this statement.

The ABO's report, while providing some useful comments and suggestions, does carry some inaccuracies, as well as create some questions with regard to both the ABO's understanding of the operations of a public water supply, and the methods by which some assertions were made.

On Page 4 of the report, it is stated that the CPWA's revenues for 2011 were \$3.8 million, when in fact, metered water sales alone accounted for \$3.87 million, with total revenues for the year amounting to well over \$5 million. Operating costs are listed in the report at \$4.1 million, when actual operating costs were only \$2.89 million. In the same paragraph, it is stated that the "CPWA's costs for producing water were \$3.88 per thousand gallons." This statement is misleading, as it equates the cost for producing water with the overall cost of operating the water system. A more accurate statement would be that the CPWA's overall cost of operation per thousand gallons of water provided was \$3.88 (although I am not sure where this number actually comes from, or whether it is accurate). I will go on to say that the use of this number to somehow compare the operations and efficiencies of the three systems is again misleading, and seems to be a totally unnecessary piece of information in the report. Each of the three systems is unique in its age, operation, customer base, and system composition, making it no more sensible to compare the three systems using this cost figure, than to compare a water system to a sewer system.

Note 1

The report states that “an average of \$60,000 could be saved annually by sharing staff to provide excavation services...” This figure may be accurate if the CPWA had equipment large enough to perform repairs on the SCWA system, which it does not. It would therefore be necessary to either purchase bigger equipment (at a cost of several hundred thousand dollars), and train employees in the use of this equipment, or for the SCWA to continue to hire contractors as needed. This also assumes that the equipment needed on the SCWA system was not already in use elsewhere, as the CPWA excavator is in use on a nearly daily basis already.

A savings is also claimed by consolidating purchases of water treatment chemicals. The savings claimed in the report assume that all liquid chlorine purchases could be made at the SCWA's lowest rate, when in fact the SCWA itself pays different rates for chlorine depending on the delivery site.

The report states that the ABO determined that the total cost of certain administrative items, such as financial audits, telephones and answering services, memberships in professional organizations and general counsel compensation exceeds \$300,000 annually. It goes on to state that consolidation of the three authorities would result in significant savings, but does not provide any supporting information on the \$300,000 figure or the estimated savings. It would seem that professed savings of this magnitude should have accompanying supporting documentation.

The ABO has drawn the conclusion that the three authorities in Saratoga County should consolidate based on presumed savings from shared services and bulk purchase of chemicals even though the likely savings represents a miniscule percentage of total expenditures. The report also fails to factor in the potential logistical and management issues that could arise due to the large geographical separation between the CPWA system and the WWSA system. Despite the physical interconnection between the two via the SCWA transmission main, separate crews would be needed to operate the two systems, as having employees travel up and down the Northway to perform the required maintenance on the two systems would undoubtedly increase expenses for fuel and vehicle maintenance, and would cause the need for more frequent replacement of vehicles.

The weak supporting data and clear underestimation of the logistical and management issues that would result, do nothing to convince the CPWA Board of Directors that consolidation is the direction that we should be heading. On the contrary, the CPWA feels that to maintain the level of customer service that our customers deserve and currently enjoy, and to correctly and fairly apply revenues and expenditures to the systems that generate them, consolidation would be totally undesirable, and quite frankly, impractical.

In response to the “Review of Management Practices” as it applies to the CPWA, we offer the following:

- **Unnecessary Expenses** – The CPWA has controls in place to prevent against unnecessary and abusive spending. While the CPWA Board and Management are

taking steps to reduce or eliminate the expenditures on coffee, it is generally felt that the nominal spending cited here is consistent with and supportive of the operation, as the purchase of coffee and other items listed in this section are provided in an effort to create a more employee-friendly, and therefore more productive workplace at relatively little extra cost.

- **Compensation** – Although the CPWA’s practice of providing compensation to its Chairman is consistent with common and accepted practice, we realize that payment of stipends to Board Members must be suspended pending an amendment to the enabling legislation.

We have many questions regarding statements about bonus payments. We are unable to reconcile a number of statements to actual occurrences. For example, the report states that an “employee whose performance rating increased by 13 percent from 2009 to 2010...did not receive any bonus in 2010.” We can find no employee who matches this description, since every employee of the Authority received a bonus in 2010. We think it would be best to discuss this section of the report in detail to reconcile our numbers, or to eliminate the discussion altogether, since it is a practice that was discontinued in 2011.

Note 2

- **Legal Services** – Upon the hiring of our general counsel in 2008, the CPWA submitted required paperwork to the Office of the New York State Comptroller (Form RS2414), which was designed by the Comptroller’s Office to assist government agencies in determining whether an individual engaged in certain professions should be considered a contractor or employee. Based on our answers to questions on that form we sent an accompanying letter explaining our decision. Upon receiving the submitted paperwork, the Comptroller’s Office admitted the employee into the NYS Retirement System without question.

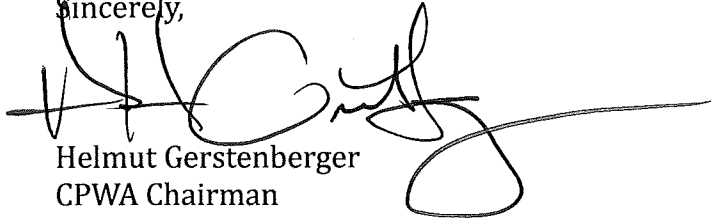
This section of your report contains a couple of factual errors. 1) The general counsel **does** submit time records to the CPWA, and is only credited service time in the NYS Retirement System for his time spent on CPWA business, and 2) Counsel is paid from the CPWA’s biweekly payroll like every other employee of the Authority, not through vouchers as the report states.

Note 3

- **Vehicle Usage** – The CPWA is currently reviewing its vehicle use practice, relying on input and best practice suggestions from other similarly situated authorities.
- **Cell Phone Usage** – The CPWA is currently reviewing its cell phone use practice, relying on input and best practice suggestions from other similarly situated authorities. In addition, the CPWA has implemented suggestions by the ABO, eliminating all but two of the pagers, keeping one for the on-call and one for a backup.

We would appreciate your incorporating these comments into any revisions you make to the report, and look forward to further discussing this at our meeting on Tuesday. Should you have any questions, please feel free to contact me at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read 'H. Gerstenberger', with a long horizontal flourish extending to the right.

Helmut Gerstenberger
CPWA Chairman



SARATOGA COUNTY WATER AUTHORITY

JOHN E. LAWLER, CHAIRMAN

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Michael Farrar, Director
Compliance Review
State of New York
Authorities Budget Office
P.O. Box 2076
Albany, N.Y. 12220-0076

Dear: Mr. Farrar:

The Board of Directors for the Saratoga County Water Authority wants to thank you for the opportunity to review the draft report. Our review has generated several concerns regarding your findings and the Board believes that there are factual inaccuracies contained in your report that must be corrected. The following comments are provided to the specific references noted in the report:

Response to ABO Executive Summary:

1. **The ABO audit recommends (P.2) that the three current independent Water Authorities (SCWA, CPWA and WWA consolidate into a single agency on the premise that the consolidation would generate cost efficiencies. The ABO audit identifies several areas for these potential savings:**

- a. **Shared Excavation Services: The ABO suggests that \$60,000 could be saved if CPWA provided excavation services to SCWA.**

We respectfully disagree with this suggestion. CPWA's excavation equipment is suitable for installing or removing small diameter waterlines, however, the SCWA waterlines are composed of 30" and 36" piping which is too large and too heavy for the equipment available from the CPWA. Furthermore, the CPWA Board Chairman has advised that CPWA's excavation equipment has little, if any, availability to SCWA given the existing demand on it to maintain the CPWA system.

- b. **Shared Administrative Services: The ABO suggests that \$300,000 in administrative expenses could be saved (Aggregate total savings of the 3 authorities) through consolidation. (p.2)**

The audit identifies potential savings for legal, website and audit expenses but does not identify the amounts to be saved from each area. While conceptually a reasonable assumption that bears further discussion, the legal and implementation expenses would likely erode much of the estimated savings.

- c. Consolidated Chemical Purchases: The ABO suggests that \$10,000 could be saved annually by consolidating purchases of water treatment chemicals. (p.2)**

Chemical costs are established through low cost bidding by quantity of delivery and locations. Consolidation does not change the location or size of the deliveries required. As a result, no potential for significant savings is likely. However, the concept is worthy of additional discussion among the authorities as it pertains to other purchases of common goods.

- 2. SCWA Board Oversight: The ABO suggests that the SCWA does not exercise sufficient oversight of financial and management operations, citing inaccurate invoices to customers and incorrect payments for goods due to the board's reluctance to hire qualified and experienced employees. (P2)**

We strongly disagree with this finding on the basis that it is factually incorrect. In addition to being a licensed engineer, our consulting Executive Director possesses a Master's Degree in Business Administration and has over 20 years of executive experience in managing the budgeting, administrative and financial responsibilities of public utilities, with the bulk of that experience working with municipal water systems. He is eminently, and perhaps uniquely qualified for the position of Executive Director. Furthermore, the Confidential Secretary, who is also described later in the document as unqualified, possesses an Associate's Degree in Business Administration with a minor in accounting and has three years of accounting experience in her previous position with the Saratoga County Government, immediately prior to her employment with SCWA.

Note
4

The ABO audit finds that "inaccurate invoices" were sent to customers. Our contract with our municipal customers requires that they purchase a minimum amount of water per day. We bill our municipal clients on a quarterly basis and the contract states that at the end of the calendar year, SCWA will "true up" the final bill to reflect any quarterly adjustments. However, seasonal demand for water fluctuates a great deal, with spring and summer months increasing demand. Also, billing quarterly with a yearend adjustment could result in the municipalities receiving large yearend invoices if minimum usage amounts were not met.

After discussing these cash flow concerns with our clients, it was determined that billing them quarterly for the minimal usage in order to equalize quarterly invoices and then "true up" the bill at year end per the contract would be beneficial to both our clients and the Authority. This was an accommodation for our clients. Both management and SCWA board were aware of and approved of this accommodation. We disagree that this is a lack of oversight, and that at best it points out a need to amend our contracts with our clients to reflect this change in billing procedure.

Note
5

Resumes of both the Executive Director and Confidential Secretary are attached to this document. Based on this information, and the evidence presented in this document which disproves many of the ABO's finding, we respectfully request that this finding be removed from the audit.

3. The ABO Audit finds “numerous instances of inaccurate invoices of incorrect payments for goods”. (p2)

The audit identifies approximately \$667 in invoices as incorrect over a 3 year period of 2009 – 2011 and SCWA vigorously disagrees with this finding. This finding is the direct result of simple addition errors by ABO staff and by a lack communication between ABO and SCWA staff. As noted later in this document (and proven by attached documentation), there is only one voucher for \$37 that appears to be an issue.

Note
6

Furthermore, our cumulative operating budget for the years of 2009 -2011 exceeded \$4 million, and a \$37 error clearly fails to meet any materiality threshold to support this finding. SCWA respectfully request that this finding be removed from the final audit on the basis of the documentation attached, and in fact, our accuracy rate for processing voucher payments 99.999% based on the dollar amount of the error as a percentage of our operating budget.

4. The ABO finds that “SCWA pays over \$100,000 annually to consultants to provide services that are provided by employees at other authorities, and believe that consolidating the three authorities into a single entity would eliminate the need for these costs.” (p.2)

The SCWA Chief Plant Operator is employed on a consultant based contract with no employee or retirement benefits and fee is consistent with the salaries paid for similar positions. The consultant receives no employee or retirement benefits, which we believe generates a cost savings for the SCWA. At the present time, neither CPWA nor WWA have employees with the required state certifications and education requirements to operate a plant of SCWA’s scale and as such these costs are not avoidable to SCWA via consolidation. The utilization of an employee rather than a consultant in this position would actually increase the operating costs for SCWA.

Note
7

Response to Introduction and Background:

5. The ABO finds that “no employee is responsible for the financial management of the authority”. (p2)

We respectfully disagree with this finding. The SCWA contract with the consultant Executive Director states that the Executive Director will “review existing budgets and authorize routine expenditures per the limitations established by the board and will work closely with the Water Authority’s Treasurer to process routine expenditures and purchase orders. All expenditures will be processed in accordance with established protocols.” The audit then notes that SCWA employs both an accounting firm and a Confidential Secretary to assist with accounting responsibilities. Based on the scope of services contract with the consulting Executive Director, he is clearly responsible for the financial management of the authority and as such we respectfully request that this finding be removed from the audit.

Note
8

6. The ABO finds that SCWA spent \$509,000 on consultants in 2011.

Technically, this finding is accurate. However, actual consultant expenses in 2011 consisted of the following:

Audit Services	\$12,000 (Independent Audit as required by statute)
Chief Operator	\$66,232 (In lieu of an Chief Operator Employee at much higher cost)
Consultant Engineers	\$51,932
Consultant Executive Director	\$19,005 (In lieu of salaried Executive Director)
Legal Services	\$189,965 (Due to litigation regarding eminent domain proceedings and contractual negotiations)
<u>Accounting</u>	<u>\$1,870 (Provide accounting assistance)</u>
Total Consultants Fees:	\$341,004

The remainder of the costs recorded as consultant fees consisted of routine operating expenses. As such, we respectfully request that this finding be revised to indicate that SCWA spent \$341,004 for consulting expenses in 2011. We also fail to understand the relevance of this comment.

7. Review of Management Practices:

Fiscal Controls: (p8)

Inaccurate Billing of Customers: (p.)

Note
9

The ABO found that SCWA issued 16 inaccurate bills to customers. As previously noted, nearly all of these bills were issued as quarterly "true ups" rather than a year end true up at the request of our municipal clients. While not identified in the audit, the two "private customers" sold water without contracts were the Town of Malta and a construction company. The construction company desired access to our system via fire hydrant for a short term period. While no formal contract existed, the company accessed the system via a metered fire hydrant and paid in full at a rate of \$2.75 per thousand gallons used. The Town of Malta requested access to our system to provide water to the new recreation fields within the Luther Forest Technology Park. We are in the process of finalizing that agreement and in the interim we have allowed metered access to our system so that the fields can be properly maintained for us and enjoyment by the Malta residents. The ABO also maintains that SCWA did not maintain records of usage for a private user to determine billing accuracy. This user was a construction company that accessed our system for a single day via a metered fire hydrant. The meter was read and recorded and the user was billed at a rate of \$2.75 per thousand gallons and paid the \$75 invoice in full.

Overall we disagree that with AO's finding that there is a pattern of inaccurate invoicing of our clients based on the findings as presented in the audit. We believe that additional information and explanation has been provided to ABO to satisfy this concern, and it is important to note that our final "true up" calculation at year end resulted in the accurate invoicing for water purchases by all of our clients. However, the ABO is correct in noting that our billing on a quarterly basis in accommodation of our clients' request is inconsistent with the contractual language and the contract should be formally amended to note this change.

Note
5

8. The ABO identified \$667 of questionable voucher payments. (p.9)

As noted previously, we disagree with this finding and believe it to be factually incorrect. The \$667 consisted of the following:

Note 6

- a. The ABO indicates that a \$259 charge for training for the executive director was not supported by documentation. The charge was well documented. The documentation includes a copy of the payment along with the agenda for the course. Copies of those documents are attached to this reply.
- b. The ABO reported two items as "the amount of receipts do not add up to the amount paid." These receipts included overpayment of 2 invoices for a combined total of \$7 (\$2.16 and \$4.84). This is because the ABO incorrectly added up the receipts. A review of these receipts shows that the amount of payments equals the value of the receipts. Copies of receipts indicating the addition error by ABO staff are attached.
- c. One payment of \$364.52 to the previous executive director that was not properly documented. The payment was well documented. The payment included reimbursement for computer related items and for postage. Documentation including copies of all receipts is attached.
- d. One duplicate payment of \$37 for an online training class. The SCWA agrees that an overpayment of \$37 did occur. We disagree that this is a material finding for the audit period of 3 years.

Furthermore, our cumulative operating budget for the years of 2009 -2011 exceeded \$4 million. As such, we disagree that a \$37 duplicate payment supports the finding that the SCWA board did not exercise sufficient oversight of financial and management operations or exhibited poor fiscal control.

Again, we respectfully request that this finding be removed from the audit due to its factual inaccuracy and failure to meet any materiality standard consistent with auditing practices.

9. Purchase of one lunch for SCWA employees for \$66.32 (p.9)

The previous Executive Director was reimbursed for purchase of pizza for plant staff that was served during a staff training session. We disagree that the purchase of a single lunch over a three year period for a training session is inappropriate. This payment is consistent with the SCWA rules, regulations and procurement practices, all of which have been provided to ABO. There is no statutory, regulatory or policy prohibition of this expense, and as such we respectfully request that it be removed from the audit unless the ABO can document that it is in violation of some statute, regulation or SCWA policy.

10. Improper Reimbursement of \$155 to the Authority's General Counsel (p.10)

The SCWA General Counsel was reimbursed for expenses incurred for a luncheon and gift for our previous Executive Director upon his retirement. We agree this finding and the General Counsel has agreed to reimburse the authority for this expense.

11. Uniform allowance expenses (p.10)

The ABO found that SCWA spent \$270 more than CPWA on a per employee basis.

The SCWA operates a more complex water plant than CPWA that requires more frequent contact with chemicals and as such uniforms are damaged and replaced on a more frequent basis than CPWA. However, SCWA should adopt a formal uniform allowance policy that more clearly provides guidance and oversight in the purchase of uniforms for staff.

12. Outside Consultants (p10): The ABO repeats its previous assertion that the SCWA lacks qualified financial management.

We strongly disagree with this finding on the basis that it is factually incorrect. In addition to being a licensed engineer, our consulting Executive Director possesses a Master's Degree in Business Administration and has over 20 years of executive experience in the budgeting, administrative and financial responsibility in public utilities, with the bulk of that experience working with municipal water systems. He is eminently, and perhaps uniquely qualified for the position of Executive Director. Furthermore, the Confidential Secretary, who is also described later in the document as unqualified, possesses an Associate's Degree in Business Administration with a minor in accounting and has three years of accounting experience in her previous position with the Saratoga County Government), immediately prior to her employment with SCWA. Furthermore, SCWA also contracts with an accounting firm to review our financial statements and accounting on a quarterly basis.

Note
4

The SCWA Board has found the current Executive Director to possess the qualifications and experience that uniquely qualify him for this position. He has been a tremendous asset to our organization and we are extremely satisfied with his work quality and the fee associated for those services.

Again, based on the information made available to the ABO, we respectfully request that this finding be removed from the audit.

13. The ABO found that the SCWA pays a Contractor \$3,000 annually to mark out water line locations rather than using its own employees similar to the CPWA

The finding is correct but the ABO conclusion is flawed. The SCWA pays a contractor between \$3 and \$11 per locate. The use of this service is consistent with utility industry standards and furthermore, it would take a minimum of 2 hours for an employee to obtain water line location records, drive to the location, mark out the location with paint and return to the location of his current duties. We estimate our fully allocated hourly rate for an employee to perform this task would be approximately \$30 an hour, substantially more than the cost associated with outsourcing this function.

The SCWA Board would like to thank the representatives of the ABO who conducted this audit for their time and professionalism. While we disagree with many of the findings, we do agree and will implement corrective action on those items as we noted in our response. Also, the overarching objective of the audit appears to be to promote consideration of consolidation among the various Saratoga county water authorities. While the financial benefits of such a consolidation are very much unproven at this time, SCWA would be willing to participate in further discussion regarding efforts to reduce operating costs via shared services and purchasing.

Sincerely,

A handwritten signature in black ink, reading "John E. Lawler". The signature is fluid and cursive, with the first name "John" being the most prominent.

John E. Lawler, Chairman
Board of Directors
Saratoga County Water Authority

Authorities Budget Office Comments

1. The operating cost figure cited by CPWA was revised for the final report.
2. The matters discussed in the portion of CPWA's response have been removed from the final report.
3. The reference to vouchers cited by CPWA was revised to appropriately indicate that the counsel reports time spent on CPWA activity by submitting invoices to CPWA.
4. SCWA's response focused on the qualifications of the consultant hired to provide executive management services and of the confidential secretary hired in November 2011. However, these are not the issues identified within our report. Rather, our report identifies the inadequate control structure that is in place, and the Board's reliance on consultants, rather than employees, to provide managerial oversight.
5. As indicated within our report, SCWA's contracts to provide water service require quarterly payments, with an adjustment to reconcile to minimum purchase agreements made at the end of the year. As SCWA officials indicate, the written terms of the contracts are not being followed, but instead an informal process has been put in place without a documented basis. This is a further example of the inadequate control structure in place.
6. The specific dollar amounts discussed in this portion of SCWA's response have been removed from the final report and the narrative revised accordingly.
7. The reference to eliminating these costs by SCWA is revised for the final report.
8. SCWA's response indicates that they disagree with the fact that no employee is responsible for the financial management of the authority, but then provides details that a consultant and a board member, neither of which is an employee, are responsible for financial management.
9. The matters discussed in the portion of SCWA's response have been removed from the final report, or have been revised to reflect comments made in SCWA's response.